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5 April 1956

CURRENT INTELLIGENCE WEEKLY SUMMARY

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CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

State Department review completed

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

ARAB-ISRAELI SITUATION Page 1

No significant changes have been reported in the disposition of Arab and Israeli forces. Israel probably completed calling up of its first-line reserves by the end of March. Both sides are maneuvering to put themselves in the best possible position in regard to UN discussions. There is no sign that either side perceives the possibility of a relaxation of tension. [REDACTED] 25X1

THE BAGHDAD PACT MEETING Page 2

The council of ministers of the Baghdad pact is scheduled to convene in Tehran on 16 April. The four Middle Eastern members of the pact are reported to be losing confidence in the usefulness of the pact. Neither they nor the British have obtained from the pact the gains they expected when they joined. Pakistan, Iran, Iraq and Turkey argue that neutralism appears to be paying better than alignment with the West. [REDACTED] 25X1

FRENCH POLICY
IN THE MIDDLE EAST CRISIS Page 4

The Mollet government has been attempting to exploit the Middle East crisis, primarily to obtain a favorable resolution of the Algerian issue. Foreign Minister Pineau has insisted that French criticism of Western policy in the Middle East and French discussions with Soviet, Indian and Egyptian officials should not be interpreted as efforts to undercut the Atlantic alliance. [REDACTED]

MIKOYAN IN
SOUTH AND SOUTHEAST ASIA Page 5

Mikoyan impressed his Indian and Burmese hosts with his approach to the economic problems of South and Southeast Asia. In agreeing to accept 400,000 tons of rice annually from Burma for the next four years, he appears to have secured a substantial foothold for the USSR. The key to Moscow's success with the Burmese is its willingness to take large quantities of surplus Burmese rice. [REDACTED] 25X1

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THE NEW SOVIET DISARMAMENT PLAN Page 6

The USSR's new disarmament plan is designed to demonstrate Moscow's willingness to make concessions to Western viewpoints in order to break the long disarmament deadlock. Moscow also hopes the plan will strengthen those political forces in Western Europe--particularly in West Germany and France--which are demanding a re-orientation of Western policies on the assumption that the threat of Soviet military aggression has disappeared.

[REDACTED]

PART II

NOTES AND COMMENTS

Peiping Promotes Trade in Middle East: Communist China is intensifying its campaign to gain political support in the Middle East through expanded trade. A trade mission headed by the Chinese minister of foreign trade recently arrived in Cairo, purportedly to discuss and possibly expand the Sino-Egyptian trade agreement, and a Chinese trade exhibit was opened there on 2 April. The Sudan has invited the mission to visit Khartoum, and Peiping has indicated a desire to establish trade relations with Jordan and other Arab countries. [REDACTED]

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Page 1

Afghanistan Signs Air Agreement With USSR: Afghanistan, which last week signed an air agreement with the USSR, appears to be well satisfied with the results of its dealings with the Soviet Union. Afghan foreign minister Naim subsequently welcomed an American offer of an aviation development project. [REDACTED]

Page 2

Oil Exploration in India: Soviet assistance in India's oil development, offered by Mikoyan during his recent visit, will probably be concentrated at this time on exploration and drilling. [REDACTED]

Page 3

Economic Co-ordination in the Soviet Bloc: The Soviet bloc is moving toward closer economic co-ordination and integration through the Council for Mutual Economic Assistance and thereby is further strengthening its capability for an economic offensive directed toward less developed countries of the free world. [REDACTED]

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Communists Push Campaign for United Front With Socialists:

In its effort to foster Communist-Socialist co-operation, the USSR is encouraging united action with Socialists at the national level, co-operation on specific issues at the international level, and would welcome visits of Socialist leaders to Moscow.

Page 5

Religion in the Soviet Union: Recent information on the status of the various churches in the USSR indicates further relaxation of restrictions on religious activities. For the first time in over 20 years, certain liturgical texts have been published or are in the process of being printed, and there are indications of a more lenient attitude toward religious education. The willingness of the regime to relax some of its restrictions would appear to stem in part from a desire to counter unfavorable Western propaganda.

Page 7

Communist Chinese Planning for Tibetan "Autonomy":

Communist China's plans to move ahead in the development of regional "autonomy" for Tibet indicates China's confidence in its control of the area. Peiping plans early ceremonies in Lhasa to inaugurate the Preparatory Committee for the Tibet Autonomous Region. The regime is engaged in a major effort to improve road communications with Tibet.

Page 8 25X1

Discontent in North Vietnam: Discontent is widespread in North Vietnam because of the accumulated effects of a severe food shortage, a repressive land reform program, and other measures designed to regiment the population. There have been several instances of violence, but there is little reason to believe that popular dissatisfaction constitutes a serious threat to the regime.

Page 9 25X1

Cambodia: For the first time, a serious challenge to Crown Prince Sihanouk's autocratic rule appears in the making by influential figures in Cambodia. However, Sihanouk is adept at political maneuvering and his enemies will find it difficult to destroy his prestige.

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British Plans for Singapore: In the talks on Singapore self-government with Chief Minister Marshall in London on 23 April, Britain intends to give Marshall only enough concessions to appear to be living up to its moral commitment to grant complete self-government in 1957. It intends, however, to retain more responsibility for internal security than it had originally planned. [REDACTED]

Page 11

South Korean Presidential Election: President Rhee has endorsed Yi Ki-pung as his Liberal Party vice-presidential running mate, and the Democratic Party has nominated its slate. This gives the Korean electorate for the first time alternative slates representing all major political parties. [REDACTED]

Page 13

North Africa: Tension in Algeria has somewhat eased. In Morocco, incidents continue to occur even though the rebels have responded to the sultan's appeal for calm and groups of chieftains have pledged to support him. Spain this week recognized, in principle, the independence of Spanish Morocco. [REDACTED]

Page 13 25X1

Iceland's Attitude Toward NATO Base: The Icelandic parliament's resolution demanding that US forces withdraw from the NATO air base at Keflavik brings to a head a situation which has been long developing in the country. The resolution itself is largely an election maneuver by the Progressives, who hope to form a government after the parliamentary election on 24 June. Regardless of the outcome of the election, Iceland is virtually certain to demand some revision in the base agreement. [REDACTED]

Page 14 25X1

Tension Mounts in Panama as Elections Approach: With the approach of Panama's presidential and National Assembly elections on 13 May, some opposition leaders are calling for revolution and are reported to have approached the Communists for aid. The administration's corrupt political machine, the National Patriotic Coalition Party, is threatened with disunity. A serious rift could jeopardize the party's otherwise almost certain victory in the elections, and could lead to dissension in Panama's only armed force, the National Guard. [REDACTED]

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PART III

PATTERNS AND PERSPECTIVES

BRITAIN'S ECONOMIC SITUATION Page 1

The threat posed to Britain's international trading position by steady inflation challenges the Eden government in a politically sensitive area at a time when its prestige is suffering from a series of blows in international affairs. Initial corrective measures have helped to stem the dangerous decline in gold and dollar reserves, but at the cost of a potential rise in unemployment and a curtailed supply of some consumer goods. They also have discouraged some industrial capital expenditures on which Britain's hopes for long-term improvement rest. Chancellor of the Exchequer Macmillan's 1956 budget, expected to be presented to Parliament on 17 April, will face particularly critical Labor opposition.

INDONESIAN COMMUNIST PARTY Page 6

The Communist Party emerged last year from Indonesia's first national elections with a strong electoral following. The party, therefore, is in a favorable position to support the present international Communist line of peaceful national-front tactics and the use of elections as an "instrument of emancipation."

ENERGY PRODUCTION IN THE USSR Page 9

The present rapid growth of energy production in the USSR from all sources is to increase still further under the Sixth Five-Year Plan (1956-1960), and output will probably reach 50 percent of the American level by 1960, as compared to a present level of 37 percent of the American figure. Two thirds of the total Soviet energy or power output is now derived from coal, but petroleum is to contribute a rapidly increasing share in the next five years. Only very minor contributions are planned from hydropower and nuclear sources.

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PART I

OF IMMEDIATE INTEREST

ARAB-ISRAELI SITUATION

No significant changes have been reported in the disposition of Arab and Israeli forces. Israel probably completed mobilization of first-line strength by the end of March. Both sides are maneuvering for a favorable position with regard to UN discussions. There is no sign that either side perceives a possibility of relaxing tension.

Continued Build-Up

The increase in Israel's forces on active duty from about 85,000 to some 120,000 during the last three months has been accomplished in gradual stages which have minimized the dislocation of the civilian economy. The economic effects of this mobilization, which places all Israel's first-line fighting strength under arms, are likely to be felt fairly soon, however.

Israel's fear of an Egyptian air attack may be alleviated in part by the imminent arrival from France of 12 Mystere IV jet fighters, which are comparable to Egypt's MIG-15's. Israel is believed to be negotiating for 12 more of these planes, and Greece has granted landing privileges for the first 12, thus hastening delivery.

Diplomatic Maneuvering

Two developments last week illustrate the nature of the current diplomatic atmosphere.

Arab diplomats in talks with Western diplomats took pains to emphasize that they were not basically opposed to UN action if it were limited strictly to the enforcement of previous resolutions. The Israelis have also been careful to avoid opposition to the UN move, but have reiterated their view that it will only serve to stall action on their requests for arms.

A second illustration was the Israeli-Syrian prisoner exchange, accomplished without incident but also without ceremony.

Developments like these at other times have given some hope that a crack might appear in the wall of hostility between Israel and the Arabs, but no such hope has been voiced in the present situation. To both sides, the visit to the area by UN secretary general Hammarskjold seems only a temporary distraction from the main business of building up military strength. [REDACTED]

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THE BAGHDAD PACT MEETING

The council of ministers of the Baghdad pact is scheduled to convene in Tehran on 16 April. All the members of the Baghdad pact are disillusioned at the lack of progress the organization has made, and the four Middle Eastern countries--Pakistan, Iran, Iraq, and Turkey--have voiced their lack of confidence in the United States and Britain.

Disillusionment With Pact

An informal meeting of all pact members except Britain was held in Karachi on 24 March.

Instead of benefiting from membership in the pact, most of the countries feel they have actually lost in prestige and bargaining power. Britain, whose adherence was designed to maintain London's influence in the area, has actually suffered as a result

of its unsuccessful efforts to bring Jordan into the pact. However, Britain still sees the pact as the best means of strengthening the area against the USSR.

Iraq

Iraq, aside from material benefits, saw the pact as an opportunity to grasp leadership from Egypt and still is the only Arab member. Egyptian and Saudi Arabian maneuvers have stopped other Arab countries from joining, and Iraq has become isolated in the Arab world and labeled a traitor to the Arab cause. As Iraq's hopes have dimmed, criticism of Prime Minister Nuri Said, who was primarily responsible for bringing the country into the pact, has increased and is likely to grow. Nuri himself appears to be on the defensive, and he has become impatient with American and British policy. Continuing internal dissension and external Arab criticism will probably make him more critical and increase his apprehensions about Iraq's position as a member of the pact.

Pakistan

Pakistan sees the pact as a means of support in its

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its quarrels with India and Afghanistan. Pakistani criticism originally directed at the United States for not providing it with more military assistance has recently focused on American failure to back Pakistan politically. Many Pakistanis feel that India received Soviet support against Pakistan only because of Pakistan's membership in the Baghdad pact and in SEATO. After the recent entry of the USSR into the picture with Bulganin's and Khrushchev's offers of large-scale aid to neutrals and their support for India and Afghanistan, objections have focused on American failure to back Pakistan politically. In the absence of favorable developments in Tehran, Pakistan will probably limit its real interest in the pact to issues which bear directly on its local problems.

Iran and Turkey

Iran joined the pact on the sole decision of the Shah. Public opinion in general opposes such membership, and the failure of the pact to produce tangible economic and military benefits for Iran would be a serious setback to the Shah and consequently to the Western position in Iran.

Turkey, which was primarily responsible for pushing the concept of the pact, now sees the alliance threatened and reportedly may be forced to reconsider its foreign policy and play down the pact's significance.

Neutralist Successes

The Middle East members of the pact have apparently been impressed by the success of the neutralists in the area,

who in their view have won maximum aid with minimum commitments to either the East or the West.

Egypt's success in obtaining Soviet arms, as well as Western offers to finance the Aswan High Dam, Soviet support for India and Afghanistan, and Moscow's offers of massive economic assistance are seen as the rewards of successful neutralism which are denied to pact members.

The absence of an immediate threat from the USSR has caused the interest to shift from military to economic questions. An increase in armaments will continue to be sought by some countries--mostly for reasons of prestige. However, increasing attention is being given to the problems of regional economic development, and the concept of the pact as a channel for distribution of increased Western aid to countries committed to the West.

Pressure for American Membership

All pact members have publicly and privately pressed for the United States to join the pact. In their eyes, this would be clear evidence of American intentions to continue an active interest in the area and would be the greatest single factor in making the pact successful.

The Baghdad pact council of ministers will probably debate all these problems at the Tehran meeting. The apparent inability of the pact to make further progress with the resources available to it, and the disillusionment of the pact members, might lead to the conclusion that further co-operation would be fruitless. 25X1

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FRENCH POLICY
IN THE MIDDLE EAST CRISIS

The Mollet government has been attempting to exploit the Middle East crisis, primarily to obtain a favorable resolution of the Algerian issue. Foreign Minister Pineau has insisted that French criticism of Western policy in the Middle East and French discussions with Soviet, Indian, and Egyptian officials should not be interpreted as efforts to undercut the Atlantic alliance.

Middle East Detente

Although reassured by recent American, British, and NATO statements approving French policy in Algeria, Paris believes a Middle East detente is important for restoring stability in North Africa. In this regard, Paris can be expected to be vulnerable to sympathetic Soviet gestures.

So far Paris has urged a halt to the arms race and a refashioning of the Baghdad pact. On 19 March, Pineau followed up repeated French pleas for renewed Western solidarity on Middle East policy by proposing an early Western Big Three conference which would call on the Soviet Union to co-operate in ending the arms race in the Levant. Pineau disclaims any desire to include the Soviet Union in an over-all settlement, but the Paris press argues that the Soviet Union cannot be ignored in a Middle East settlement. On 29 March, Premier Mollet called for an arms embargo under UN auspices, apparently envisaging Soviet adherence. The Soviet Union has

made clear its insistence on playing a part in any Middle East settlement.

Arms Shipments

Algeria is in the forefront of thinking in Paris on the arms embargo and Pineau has emphasized that the disarmament talks in the United Nations and the arms race in the Middle East are connected.

France, which has been selling arms to both Israel and the Arab states, believes Israel should be armed sufficiently to redress any imbalance resulting from the influx of Soviet arms to the Arab countries. Pineau has pointed out that Soviet deliveries of arms to Egypt has increased tension in the Middle East. On 24 March he called for a "favorable Soviet gesture."

Baghdad Pact

On the same day, Mollet reminded a group of journalists that France was not consulted when the Baghdad pact was formed, and stated that he favored changing it to give greater importance to economic aid.

During his recent visits to Karachi and Cairo, Pineau capitalized on Indian and Egyptian opposition to the Baghdad pact to win diplomatic support.

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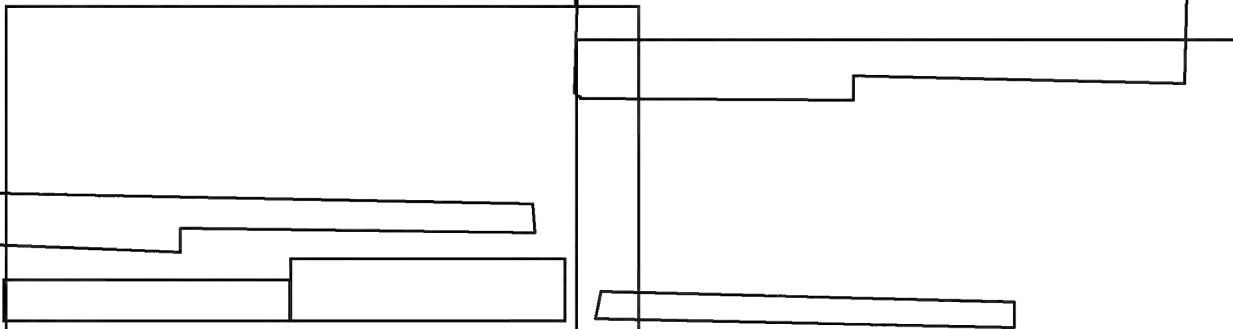
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On his return to France, Pineau told the National Assembly that India counted on France to act as a "hyphen" between India and the West.

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MIKOYAN IN SOUTH AND SOUTHEAST ASIA

Mikoyan impressed his Indian and Burmese hosts with his approach to the economic problems of South and Southeast Asia. Although he held up the Soviet experience as an example for the Asian countries to follow, he carefully avoided emphasizing dogma or giving the impression that Soviet economic planning is infallible.

India

With Indian officials, Mikoyan freely discussed Soviet economic problems and offered objective advice on Indian problems. He stressed the importance of heavy industry for India, but advised India--because of its large surplus of manpower--against heavy mechanization of agriculture, a cardinal point in Soviet farm policy. He denied that Soviet methods are universally applicable and granted that there are "many roads to socialism." He said

he was confident that India would "succeed in achieving her goal of a 'welfare state.'"

Burma

In signing new agreements with Burma, the USSR appears to have secured a substantial commercial foothold. The key to Moscow's success with the Burmese has been its willingness to take substantial amounts of surplus Burmese rice.

According to a 2 April joint communiqué on Soviet-Burmese trade relations, Mikoyan and Burmese officials signed a new five-year trade agreement, a four-year rice protocol, and documents outlining delivery schedules and a system of payment. The new agreement extends the one of 1 July 1955 from three to five years, and the rice protocol of the same date from one to four years. It provides for the export of 400,000 tons

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of rice annually to the USSR--double the amount under the earlier agreement.

The Soviet Union thus becomes Burma's largest rice customer, and Sino-Soviet bloc rice purchases from Burma this year will amount to at least one third of Burma's total rice exports. In exchange, the USSR is to ship "equipment, machinery and other goods," and to supply "technical and other services." Burmese technicians were invited to the USSR to familiarize themselves with the machinery and equipment to be purchased, if Burma so desires.

Mikoyan also promised Burma a "gift" of a hospital, a theater, and a cultural and sports center which will include a stadium, exhibition facilities, a conference hall, and a hotel. As a reciprocal "gift" to the USSR, Burma has agreed to give an "appropriate quantity" of rice. The first exchange of this type between the Russians and the Burmese occurred last December when Bulganin and Khrushchev promised Burma a technical institute and the Burmese reciprocated with a "gift" of rice.

These "show projects"--like street-paving and buses in

Kabul--apparently were chosen because of the propaganda effect they will have.

The American embassy in Rangoon has commented that if Burma is capable of delivering the total amount of rice for which it has contracted--"gifts" not included--the magnitude of the Soviet-Burmese deal would be more than \$160,000,000 over a four-year period. The embassy has been informed that Burma is also considering a Soviet development loan to be repaid in commodities. Despite the opposition of some Burmese officials, Burma would probably accept a loan from the USSR if the terms were sufficiently attractive.

North Vietnam

Mikoyan arrived in Hanoi on 2 April, and in a speech at the airport restated Moscow's traditional support for the peaceful unification of Vietnam through "democratic free elections." The Viet Minh characterized Mikoyan's visit as reciprocal to the Ho Chi Minh visit to Moscow last July. At that time, Ho and Mikoyan signed a declaration announcing a Soviet grant of 400,000,000 rubles in aid for reconstruction of war damage. Mikoyan probably will check on how the Viet Minh uses this grant.

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THE NEW SOVIET DISARMAMENT PLAN

Discussions by Soviet officials in London and by the Soviet press and radio of the USSR's new disarmament plan, introduced by Soviet delegate Gromyko at the 27 March meeting of the UN disarmament

subcommittee, provide further evidence that the plan was designed primarily to influence Western European opinion.

The plan's general purpose apparently is to demonstrate

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the USSR's willingness to make important changes to break the disarmament deadlock and to show that the Western powers, especially the United States, are not really interested in reaching any form of disarmament agreement. The more specific purpose of the new plan probably is to provide ammunition for those political forces, particularly in West Germany and France, which are demanding a reorientation in Western policies.

Soviet Negotiating Tactics

In violation of the understanding that the London sessions would be secret, the USSR publicized the essential points of the new plan three days after it was submitted. Members of the Soviet delegation have insisted to American officials, however, that the Soviet plan represents a serious effort to negotiate an agreement and is not propaganda, and that the USSR had gone far to meet the American position.

Soviet spokesmen in private talks in London, supported by Moscow propaganda media, are stressing that the Soviet government believes that, in order to facilitate an eventual agreement to ban nuclear weapons, the powers should begin by agreeing to reduce and limit conventional armaments and armed forces. They claim that the Soviet plan includes inspection and control as demanded by the United States and that it omits a ban on nuclear weapons "at present" because of US insistence that such a ban could not be enforced.

Adoption of Western Proposals

Pravda has noted that the plan to create a semidemilitarized zone in central Europe corresponds to the proposal put forward by British prime minister Eden at last summer's summit conference and suggests "there is reason to believe" that this proposal "will first of all be supported by Britain." The plan also includes a prominent reference to former French premier Faure's summit proposal to devote savings from armaments funds to economic development.

The Soviet leaders are attempting to deprive the Western powers of their most fundamental criticism of earlier Soviet disarmament positions, namely that the USSR, by insisting on an unconditional prohibition of nuclear weapons, was attempting to destroy the West's nuclear superiority. During the subcommittee debate on 28 March, Gromyko said it was odd that, while the Western powers in the past always complained the USSR was seeking to deprive them of their nuclear superiority, they now were protesting that the new Soviet plan omitted a ban on nuclear weapons and proposed a scheme which would result in an equality of conventional armaments among the major powers.

In private conversations in London, the Soviet delegation is stressing that its position is flexible. It claims that the third and fourth parts of the new plan--which deal with the creation of a European zone subject to arms limitation and inspection and the three "partial

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measures" proposed by Khrushchev at the Soviet 20th Party Congress --are separate from the first and second parts. The first covers a freeze on conventional armaments and military expenditures, force limits and reductions; the second provides for control and inspection.

Political Purposes

Moscow's preoccupation with political aims, as opposed to narrow technical problems, in the disarmament talks was clearly indicated by Gromyko's suggestion that if the subcommittee is unable to reach agreement on the other parts of the new plan, it should at least agree on Part III, covering the creation of a European zone

subject to arms limitation and inspection which would include both parts of Germany and neighboring states.

This proposal is an extension of the provision for a European zone of limited and controlled armaments and forces included in the draft European security treaty introduced by Molotov at the Big Four foreign ministers' conference last October. The injection of this element touching on the German reunification question is clearly intended to support Moscow's broader German policy and to encourage the belief in Western Europe that some form of disarmament agreement is a prerequisite to the solution of the German problem.

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PART II

NOTES AND COMMENTSPeiping Promotes Trade
In Middle East

Communist China is intensifying its campaign to gain political support in the Middle East through expanded trade. The focal point of this activity is Egypt, where the Chinese opened an impressive trade exhibit on 2 April. A trade mission headed by the Chinese minister of foreign trade recently arrived in Cairo, purportedly to discuss and possibly expand the Sino-Egyptian trade agreement.

The arrival of this mission and the earlier stationing of a 30-man permanent commercial delegation in Cairo emphasize the importance Peiping attaches to an expansion of trade with Egypt. China's trade promotion efforts reportedly have been enthusiastically received in Egypt.

AGREEMENT WITH EGYPT

Communist China and Egypt signed their first trade agreement last August, establishing a trade target of \$28,000,000 each way for the first of three years. Under this agreement, Egypt offered cotton and fertilizer while China listed industrial machinery and installations, construction materials, chemicals, and agricultural products as available for export.

Before this agreement China had purchased sizable amounts of Egyptian cotton, paying Egypt in sterling rather than in goods. Recorded trade statistics for 1955--which show Chinese imports of Egyptian cotton valued at approximately \$25,000,000 and less than \$1,000,000 worth of exports to Egypt--reveal the normal course

of Sino-Egyptian trade and indicate the lack of a real basis for permanent expansion of two-way trade.

DELIVERIES

Since the conclusion of the trade agreement, Egypt has started to deliver \$14,000,000 worth of cotton purchased by China under the first annual contract. China is scheduled to purchase an additional amount of this same value before the fall of 1956. On its part, China has shipped half of the 60,000 tons of structural steel worth about \$7,000,000 which Egypt agreed to accept.

Egypt is not known to have accepted, as yet, Chinese offers to furnish machinery and equipment for a complete cotton spinning and weaving mill, a paper mill, a sugar refinery, and a flour mill.

OTHER CONTACTS

The Sudan has invited the Chinese trade mission in Cairo to visit Khartoum, and the British embassy in Khartoum reports that the Sudanese prime minister has indicated a serious interest in establishing diplomatic relations with Communist China. However, the Sudanese will probably follow Egypt's example in gradually increasing contacts with the Chinese and, for the time being at least, permit only the establishment of a permanent Chinese Communist commercial office to handle trade under any agreement which may be concluded.

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A Chinese trade official, in reviewing China's trade prospects in the Arab countries, stated on 28 March that it was necessary and desirable to establish trade relations with "Jordan and other Arab coun-

tries." This is the first interest Peiping has displayed in Jordan--a country ignored last fall by the Chinese trade delegation which secured trade agreements with Syria and Lebanon and approached Saudi Arabia.

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Afghanistan Signs Air Agreement With USSR

Afghanistan, which last week signed an air agreement with the USSR, appears to be well satisfied with the results of its dealings with the Soviet Union. At the same time, Afghan foreign minister Naim has welcomed an American offer of an aviation development project.

The Afghan-Soviet air agreement provides for reciprocal transit rights and for equal sharing of all passenger and cargo traffic passing through the two countries. The Soviet Union reportedly will have landing rights in three months at Mazar-i-Sharif, Kabul and Kandahar, while the Afghans will be allowed to land at Tashkent, Aktyubinsk, Moscow

and Leningrad.

The bulk if not all of the traffic will be handled by the Russians since Afghanistan, which at present has only a few American DC-3's, is unlikely for a long time to be able to develop an air service capable of handling international traffic. The agreement with Afghanistan will thus facilitate Moscow's plans for development of air service through the USSR between Europe and South Asia and the Far East. The low passenger fare of \$170 visualized for the Germany-Afghanistan flight reported by the American embassy in Kabul suggests that Moscow intends to give stiff competition to the more

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roundabout Western air routes, on which comparable fares are \$680 first class and \$470 tourist.

The American aviation development offer--which includes \$5,000,000 in loan and \$5,000,000 in grant for Afghan aircraft,

airfields and operational services--has been approved in principle. The Afghan deputy foreign minister, who accepted the Soviet offer, indicated on 30 March that his government was eager to begin negotiations.

[redacted] (Concurred in 25X1 by ORR)

Oil Exploration in India

Soviet assistance in India's oil development, offered by Mikoyan during his recent visit, will probably be concentrated at this time on exploration and drilling, and is not likely to extend to refining and marketing.

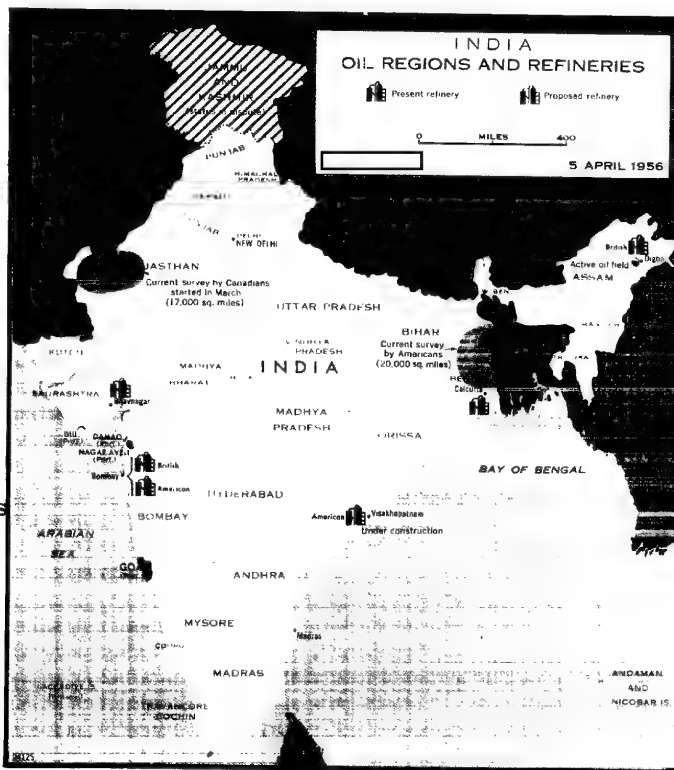
PRESENT FACILITIES

India's most pressing need in the petroleum field at present is the development of a crude oil supply. Its current production is insignificant, and imports have been costing the equivalent of \$175,000,000 a year, a heavy drain on the country's foreign exchange.

Refining facilities, on the other hand, are comparatively well developed. India will be able to refine 85 percent of its immediate needs when the third refinery built by Western oil companies is completed in the near future. These refineries have been guaranteed against nationalization for 25 years.

New Delhi's announcement in June 1955 that the main work of

exploration and exploitation of oil fields would be carried on by the government appears to limit the future expansion of private Western oil interests in the production field. This may have encouraged the USSR to believe that any offer of assistance would be welcomed.



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intended to eliminate previous organizational limitations which resulted in confusion in planning and operational inefficiency. A new section reportedly formed for analysis of capitalist markets may reflect a suggestion reportedly made by A. A. Pavlov, secretary general of CEMA, to Gunnar Myrdal of the Economic Commission for Europe for an "informal" relationship between their organizations.

The USSR and its European Satellites make up the membership of CEMA. Communist China and the other Communist countries of the Far East are not official members, although they are represented at CEMA meetings by observers, and appear to coordinate trade and production plans with the European Satellites.

CEMA MEETING IN BERLIN

Co-operation among the USSR and its European Satellites was apparently one of the main themes at a CEMA meeting in Berlin from 6 February through 12 March. The meeting reportedly was held to co-ordinate bloc-wide production and trade, synchronize efforts to "infiltrate neutral and Western mar-

kets," and arrange import-export needs in order to reduce imports from the West.

Although it is clear that a single economic plan does not now exist for the entire bloc, certain trends point toward eventual establishment of such a plan. Efforts continue toward working out a division of labor and specialization in production. Steady developments in standardization point toward a more integrated economic system.

While the bloc countries use the ruble as the monetary unit in trade among themselves and more or less adhere to standardized prices, extensive financial integration has not yet been achieved. In fact, the price system is the weakest aspect of bloc integration.

It does not appear that the Soviet bloc will be fully integrated economically by 1960, but through CEMA and its co-ordination facilities, the bloc has further strengthened its capability for a trade offensive directed toward less developed countries of the free world. (Pre- 25X1
pared by ORR)

Communists Push Campaign for
United Front With Socialists

In its effort to foster Communist-Socialist co-operation, the USSR is encouraging united action with Socialists at the

national level, co-operation on specific issues at the international level, and would welcome visits of Socialist leaders to

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SOVIET ASSISTANCE

The Soviet Union is able to supply capable technicians and satisfactory equipment.

The Soviet offer will be attractive to India as it needs such assistance, and the offer is probably the only firm one available under present conditions.

The Indian minister of natural resources, who recently

visited the USSR, returned apparently impressed with Soviet techniques and methods. A delegation of Soviet experts has just completed a survey of India's resources which gave them an opportunity to impress other members of the Indian government.

The aggressive exploration taking place in Pakistan under American private enterprise probably has created a feeling of urgency in New Delhi.

[redacted] (Con- 25X1
curred in by ORR)

Economic Co-ordination in the Soviet Bloc

The Soviet bloc is moving toward closer economic co-ordination and integration through the Council for Mutual Economic Assistance (CEMA) and thereby is further strengthening its capability for an economic offensive directed toward less developed countries in the free world. According to a recent Pravda editorial, the 20th Party Congress "ushered in a new stage in the development of economic co-operation of the socialist states" which will "lead to a better utilization of equipment giving a substantial economy of material and financial resources."

CEMA REORGANIZED

In a move possibly connected with this "new stage," CEMA--the main organization concerned with economic co-ordination and integration in the Soviet bloc--recently expanded and reorganized some of its subordinate sections in Moscow in order to facilitate economic integration [redacted] 25X1

The reorganization, as reported, appears to have been

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Moscow. These views were set forth in an article in Pravda on 31 March and have also been specifically voiced by the leaders of Western European Communist parties.

PRAVDA ARTICLE

The Pravda article, signed by central committee member Ponomarev, said that "now as never before" conditions are favorable for working-class unity. It cited the example of years of co-operation in Italy as "proof" that unity benefits both Socialist and Communist Parties, and it pointed to France as a nation where the first steps toward co-operation had been taken.

Ponomarev said that the "myth of an iron curtain" was being dispelled by visits such as that of the British Labor delegation to the USSR and China and that of the Norwegian premier, head of the Norwegian Labor Party, to Moscow. He said that many delegates to the Socialist International conference at Zurich in March favored an increase in contacts with Communist parties, and he ignored the Zurich conference's decision against such contacts.

Ponomarev stressed the need for seeking agreement first on specific pressing issues such as disarmament, nuclear weapons, European security, German unity, and workers' demands, rather than discussing the basic "theoretical and philosophic" problems dividing Socialists and Communists.

MALENKOV AND THE BRITISH CP

Concentration on probable points of agreement rather than divisive issues was also proposed by former Soviet premier Malenkov at a dinner with Labor Party leaders in London, during which he repeatedly urged the need for "working-class unity." Apparently conscious of the ineffectiveness of the British Communist Party, he was probably

thinking primarily of Laborite co-operation with Communist groups internationally.

When asked about the local Communists he said, "As far as we are concerned, you Laborites are the representatives of the British working class and the issue of the British Communist Party is entirely extraneous." The British Communist Party, however, apparently not feeling extraneous, proposed on 31 March a joint program with the Labor Party based on domestic economic issues, a suggestion quickly rejected by the Laborite press.

FRENCH COMMUNIST VIEWS

In France, the Communist Party central committee passed a resolution on 22 March which appeared to commit it to support the Socialist-dominated government for some time, despite policy differences. The resolution declared that by supporting the government on the Algerian votes of confidence, the Communist Party had created favorable conditions for progress toward a popular front and had "refused to sacrifice this perspective by a vote which would have provoked a break over a particular point, however important." It said the Mollet government "speaks a new language" from that of its predecessors, citing its stand on disarmament, its linking of a German solution to disarmament, and its desire for contacts with the USSR.

Party Secretary Thorez cited several domestic issues on which the French Communist and Socialist Parties agreed, including secular education and improvement of workers' living conditions. Party leader Duclos said that the new doctrines emerging from the 20th Party Congress in Moscow, particularly that on parliamentary means for "transition to socialism," provided a new opportunity for Communist-Socialist co-operation.

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Religion in the Soviet Union

Information on the status of the various churches in the USSR indicates a continuing relaxation of restrictions on religious communities. These concessions apparently rest on the regime's assurance that religion no longer constitutes a threat, and its belief that all religious sentiment can eventually be eradicated through constant atheistic indoctrination.

NEW BIBLES

An American churchman visiting the USSR in early 1956 was shown a copy of a new Baptist hymnal in process of publication and was told that a new Bible would soon be issued, published from matrices sent by the American Bible Society. As many as 100,000 copies could be reproduced from these matrices.

According to the American embassy in Moscow, a new edition of the prayer book for the Russian Orthodox Church went on sale at a very reasonable price in several Moscow churches last December. The issue was apparently sold out within a week or two, but an official of the Moscow Patriarchate indicated that more would be printed. The official also stated that a new edition of the Bible was in preparation. Reports as to the number of copies to be issued range from 10,000 to 25,000. A prayer book for the Jewish community is also in process of publication.

Permission to resume publication of religious texts, even in small editions, marks a notable concession. Until last year, so far as is known, no religious text had been printed in the Soviet Union

since the 1920's. Bibles and prayer books had become so scarce that many church communities possessed only one copy of the Bible, which members of the congregation copied.

RELIGIOUS INSTRUCTION

Some Soviet religious leaders have expressed optimism to Westerners that they may receive permission to open religious schools. There are approximately eight Russian Orthodox seminaries and two small Moslem seminaries in the Soviet Union. No facilities presently exist for training rabbis, Protestant ministers, or Roman Catholic priests.

Rabbi Shlifer of the Moscow Synagogue has expressed hope in recent months that he might obtain permission to open a rabbinical institute. A member of the Moslem Board for Central Asia and Kazakhstan told an Italian newsman that his church had asked the Uzbek government for permission to open Koranic schools for laymen and that the request had been referred to Moscow. Whether or not permission is actually granted in these cases, it is evidently believed that attempts to win concessions from the regime will not necessarily be fruitless. 25X1

[redacted] the law banning religious instruction of children under 18 is being circumvented in numerous ways. In the Russian Orthodox Church, Sunday evening vesper services are often followed by several hours of religious instruction. Choir practice is also apparently used as a pretext for religious instruction. Protestant

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children are apparently instructed by visiting lay workers.

PROPAGANDA PURPOSES

The willingness of the regime to relax some restrictions would appear to stem in part from a desire to counter unfavorable Western

propaganda. Western religious leaders who have visited the Soviet Union in the last two years have pointed to the virtual absence of printed religious material as evidence of the suppression of religious freedom in the USSR. The concessions have coincided with a rash of invitations to Western clergymen of all denominations to visit the Soviet Union.

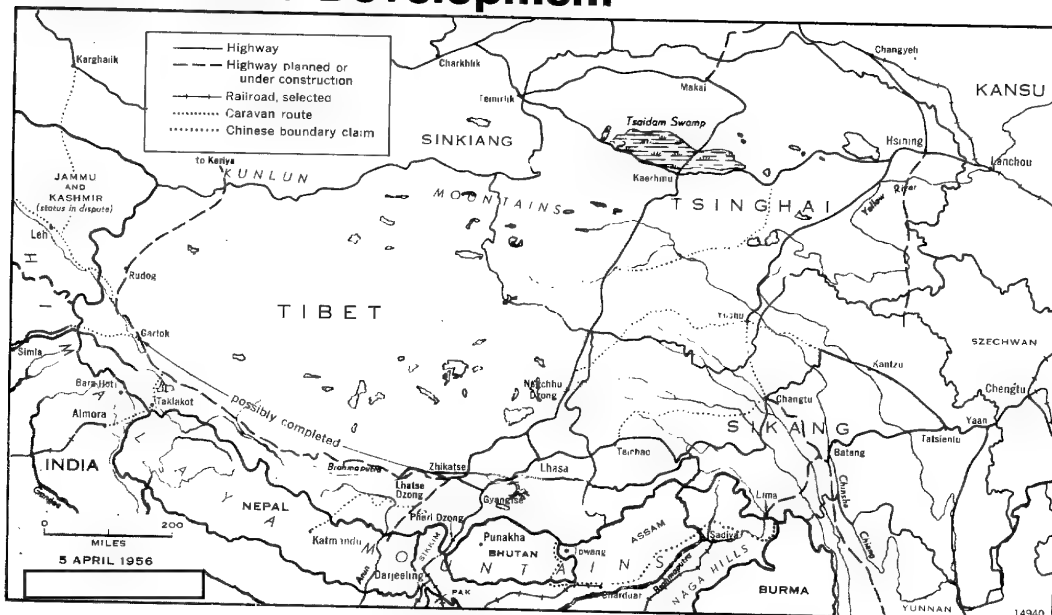
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Communist Chinese Planning For Tibetan "Autonomy"

Communist China's plans to move ahead in the development of regional "autonomy" for Tibet indicates Peiping's confidence in its control of the area. Peiping plans early ceremonies in Lhasa to inaugurate the Preparatory Committee for the Tibet Autonomous Region. The regime is currently engaged in a major effort to improve road communications with Tibet.

"AUTONOMOUS" REGION

Under Peiping's minorities program, Communist control of remote areas is strengthened by the device of working through local customs and institutions, and the co-operation of minority groups is gained by the granting of nominal self-rule. In actual fact, however, all of Communist China's "autonomous"

Tibetan Road Development**SECRET**

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areas are defined as "inseparable" parts of the People's Republic.

The large Chinese delegation to the inaugural ceremonies of the Preparatory Committee--which left Peiping on 16 March--is headed by Vice Premier Chen I and includes 57 delegates and five art groups. The size and caliber of this delegation is a measure of the effort Peiping is making to impress both Tibetans and other ethnic groups throughout China with the regime's minorities program.

PREPARATORY COMMITTEE

As established by the Chinese Communist State Council in March 1955, the Preparatory Committee is chaired by the Dalai Lama, who has as principal lieutenants his rival, the Panchen Lama, and the Chinese commander of Communist forces in Tibet. Membership on the committee is divided among the Dalai and Panchen Lamas' followers and Chinese representatives.

An organizational meeting of the Preparatory Committee was first held last September

but the committee failed to operate after that date. Unconfirmed but persistent rumors indicated that the reason for this inactivity was Tibetan opposition to Chinese plans for the formation of an "autonomous" region in Tibet. If indeed these rumors had some basis in fact, it would now seem that such opposition no longer exists or that Peiping is more confident that it can quietly overcome Tibetan recalcitrance.

ROAD IMPROVEMENT

The ceremonies in Lhasa are designed to underscore progress in "linking" Tibet with other areas of China. Preparations for the forthcoming inaugural ceremonies may be one reason for the major road development program in Tibet, as recently reported by Peiping.

Communist emphasis on the unity between China and its border regions is demonstrated by the recent pledge of railway workers eventually to "build our railways to the roof of the world--Tibet, and to link the whole country with the capital by rail." (Concurred in by ORR)

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Discontent in North Vietnam

Discontent is widespread in North Vietnam over the accumulated effects of a severe food shortage, a repressive land reform program, and other measures designed to regiment the population. There have been several instances of violence. The discontent does not appear strong enough, how-

ever, to constitute a threat to the regime.

The food shortage has been caused by the failure of four successive crops since the end of 1953. As a result, the heavy agricultural taxes have met with strong resistance this year. Vice Minister of

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Agriculture Ho Viet Thang virtually admitted the existence of peasant dissidence and the anticipation of further trouble when he announced recently that the agrarian reform must be carried out "at any cost" and that acts of sabotage must be suppressed "without mercy."

The official Communist newspaper in Hanoi reported on 24 February that "wicked landowners" in Gia Lam Province had killed one man, set 33 fires, and were "spreading confusion in the countryside." The same paper reported on 9 March that "the cruel and dishonest landowners still move among us."

Considerable unrest among the Catholic population was indicated in another article in January which claimed that Catholics had been incited "to fight against the cadres" and to commit arson.

COMMUNIST CADRES EXHORTED

The regime's concern with unrest caused by other government programs has been indicated by repeated broadcasts exhorting Communist cadres to overcome popular opposition to and misunderstanding of such projects as the census and tax collection. The cadres have been castigated for ignoring "the poor and miserable life of the working people" and for permitting widespread embezzlement and waste among government officials. Broadcasts of this nature reflect the difficulties caused by a continuing shortage of trained administrative and

technical personnel since the French withdrawal.

OUTBREAKS OF EPIDEMICS

Another severe problem contributing to the unrest of the Viet Minh population has been the outbreak of serious epidemics probably fostered by semistarvation diets and lack of sanitation.

[redacted] as of February 1956 foreigners, apparently including Chinese and Soviet citizens, were required to have passes to move through certain sections of Hanoi and were not allowed to enter other areas at all. Such control of the movements of "friendly" foreigners may indicate that serious disease and famine exist even in the capital, where there has been a marked effort to create a "showcase" for Vietnamese Communism. It is also possible that there is sufficient discontent in certain areas to warrant barring foreigners to forestall possible violence.

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In spite of the handicaps created by these internal problems, there is little reason to believe that popular discontent constitutes a threat to the regime. The Viet Minh has continued to improve its internal security as well as the capabilities of its 257,000-man army. At the same time, the fact that a large portion of bloc aid consists of food and medical supplies indicates that the major Communist powers intend to keep discontent in controllable limits. [redacted]

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Cambodia

For the first time, a serious challenge to Crown Prince Sihanouk's autocratic rule appears in the making by influential figures in Cambodia. Sihanouk is adept at political maneuvering, however, and his enemies will find it difficult to destroy his prestige.

OPPOSITION TO SIHANOUK

Important figures, such as Royal Councilor Penn Nouth and National Bank director Son Sann, have disagreed publicly with Sihanouk in an apparent effort to undermine his position.

An intense struggle for power is now going on, despite the National Assembly's approval on 3 April of former deputy premier Khim Tit as head of the new government following Sihanouk's resignation. Removal of Sihanouk's influence over the government, however, would probably be the prelude to a period of rapidly increasing instability.

SIHANOUK'S TACTICS

Sihanouk's latest resignation on 30 March appears closely related to the growing undercurrent of opposition. There has been mounting criticism of his austerity and reform measures, as well as dissatisfaction with Cambodia's foreign policies. It was foreign policy difficulties--specifically Cambodia's disputes with South Vietnam and Thailand--that Sihanouk chose to cite as reasons for resigning in a radio address to the Cambodian people.

By taking his case directly to the masses, where he enjoys tremendous support, Sihanouk is probably preparing for ultimate resumption of overt authority at some future date. Meanwhile, he probably feels he can more effectively control the governmental machinery from behind the scenes, where his prestige is less likely to be impaired by political sniping.

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British Plans for Singapore

In the talks on Singapore self-government with Chief Minister Marshall in London on 23 April, Britain intends to give Marshall only enough concessions to appear to be living up to its moral commitment to grant complete self-government in 1957. It intends, however, to retain

more responsibility for internal security than it had originally planned.

MARSHALL WEAKENED

Since January, when Britain made its general commitment on self-government

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for Singapore

In order to let Marshall return home with what he can call "self-government," Britain is prepared if necessary to concede a fully elective executive council and an enlarged legislature.

ALTERNATE MEASURES

London's immediate concern is to prevent a breakdown in the talks which could result in Marshall's fall from power. British officials are particularly worried that the chief minister might arrive with an impracticable draft constitution and with views too well publicized to allow for compromise. Moreover, press reports of party preparations in Singapore prior to Marshall's departure suggest that he is in complete local control of internal security.

If Marshall should fall, Britain would be prepared to consider revoking the present constitution and resuming full authority. This would be done, as in the case of British Guiana in 1953, only as a last resort to prevent Singapore from coming under Communist domination. British officials emphasize their determination to prevent Singapore from becoming a Communist outpost, which they believe would happen almost automatically if Britain withdrew completely.

For the long run, the British do not believe that Singapore is large enough to become an independent political unit. They envisage instead that it will eventually become a part of the Malayan Federation, despite the fact that Malayan chief minister Rahman has rejected Marshall's recent proposal that the Malayan constitutional commission include Singapore in its planning.

Marshall himself now appears to doubt his ability to maintain control in Singapore. Last week he suggested that following the grant of self-government British security forces be kept on hand to quell any disorders which the local Singapore government determined to be critical. The British see accommodation to such a plan as responsibility for security without authority to enforce it, since, they fear, the local government might hesitate to admit its inability to cope with disorder until the situation had got out of control. They also view with disquiet the prospect that British armed forces might have to fire on local mobs at the request of local ministers.

BRITISH RETAIN CONTROLS

Nevertheless, the Colonial Office does look upon Marshall's concern as providing a chance to retain effective internal security controls. London will insist that the British governor or his successor continue to have access to local security information and unqualified authority to intervene if necessary.

London will also insist on retaining control of Singapore's defense and of most aspects of its foreign relations.

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South Korean
Presidential Election

President Rhee has endorsed Yi Ki-pung as his Liberal Party vice-presidential running mate and the Democratic and Progressive Parties have nominated their slates. The nomination of Sin Ik-hui and Chang Myon by the Democrats gives the Korean electorate for the first time alternative slates representing the major political parties. Including the Rhee slate, three candidates have declared for the presidency, and four--including Yi Pom-sok--for the vice presidency.

The Democratic ticket is regarded as a strong one, while the nomination of socialist Cho Pong-am by the Progressives--who have not put forth a vice-presidential candidate--is likely to appeal to anti-government elements in rural areas. In 1952, in the face of considerable police harassment, Cho topped a group of three candidates challenging Rhee, gaining 800,000 votes to 5,000,000 polled by Rhee.

The government's action in setting 15 May as the date

for the election has been denounced by the Democrats as an attempt to minimize the time in which opposition elements can campaign.

Although President Rhee's re-election by a large majority is regarded as assured, the split ballot in South Korea may make for a closer race for the vice presidency. While Liberal Party control of the police has in the past generated large government majorities, accumulated grievances against the party, augmented by Democratic efforts to organize at the national level, may presage inroads into the usual Liberal Party majorities.

The manner in which party leaders make use of the national police may be a vital factor. Police activities to date have apparently been confined largely to surveillance of opposition activities, and it is possible that Rhee will hesitate to use overt harassment of the opposition in view of the press and diplomatic attention likely to be accorded the election. 25X1

North Africa

ALGERIA

French minister Lacoste in Algeria may now be able to influence the Moslem National Liberation Front to accept some-

thing short of total independence. His position has been strengthened as a result of the full powers granted him by the French National Assembly as well as by his firmness toward the European extremists, the growing number of groups which now support him

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publicly, and the effective offensive of the enlarged army against the Algerian rebels.

Convinced that Paris has no intention of abandoning Algeria to the Moslems, the French settlers are not now objecting to the initiation of economic and social measures which, according to the recently approved French policy for Algeria, are to be implemented concurrently with the military campaign.

MOROCCO

While the Moroccan rebels apparently have ceased their attacks against the French and many rebel chieftains have publicly pledged to support the sultan, some incidents continue in

eastern Morocco near the Algerian border and sabotage of telegraph and telephone wires persists. As there apparently is to be no attempt to obtain the rebels' arms, sporadic outbreaks are likely to continue and the Algerian rebels will probably receive some support.

The Moroccans' reaction to the Soviet note to the sultan suggesting "friendly collaboration between Morocco and the USSR" has been noncommittal. The sultan reportedly has no intention of establishing diplomatic relations with Moscow in the near future. Meanwhile, he is now in Madrid for discussions on the future status of the Spanish zone whose independence was recognized in principle this week by Spain.

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Iceland's Attitude
Toward NATO Base

The Icelandic parliament's resolution demanding that American forces withdraw from the NATO air base at Keflavik brings to a head a situation which has been long developing in the country. The resolution itself, approved on 28 March by a 31-18 vote, is largely an election maneuver by the Progressives, who hope to form a government after the parliamentary election on 24 June. Regardless of the outcome of the election, Iceland is virtually certain to demand some revision in the base agreement.

The resolution calls for:
(1) immediate discussions with

Washington on revision of the US-Icelandic Defense Agreement of 1951, with the "aim" of having the Icelanders take over the guarding and maintaining of installations, and (2) withdrawal of US forces from the country. If agreement cannot be reached, the resolution calls for termination of the defense agreement. Under Article VII, the agreement can be terminated by either side on 18 months' notice.

POLITICAL MANEUVERING

The resolution, on which the Progressives were supported by the opposition Social

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Democrats, with whom they have formed an electoral alliance, is regarded by informed opinion in Iceland as essentially a political maneuver aimed against the small National Defense Party, which is vehemently opposed to the NATO base and which in the 1953 parliamentary elections made inroads into Progressive strength. The Communists and the National Defense Party also supported the resolution.

The Progressives, a largely agrarian party, have themselves long been divided on this issue. As a result of the accelerated growth of sentiment against the base since the death of Stalin and especially since the summit conference last summer, they are seeking to give the impression that they are taking drastic action. At the same time, they apparently want to leave the door open for reaching a compromise agreement with the United States after the elections.

What most Icelanders actually appear to desire rather than complete withdrawal of US forces is greater participation in the operation of the base. The shortage of manpower and training requirements would preclude any rapid Icelandic takeover.

So far, the Conservative-Progressive government coalition, which will carry on in a caretaker capacity until June, has not indicated how it will implement the legislature's resolution.

EFFECT OF ELECTION

The outcome of the election will influence the actual course of negotiations. The Communists, with some dissident Social Democratic support under the aegis



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of the Communist-dominated Icelandic Federation of Labor (IFL), will urge during the campaign that Iceland sever its ties with NATO. The Communists are not expected to make significant gains. Most Social Democrats, including some left-wing elements who previously supported the left-wing Socialist president of the IFL, will back the Progressive-Social Democratic electoral alliance.

The Conservative Party is not expected to campaign on an out-and-out pro-base platform; but it may, as it did during the parliamentary debate on the resolution, point out that while foreign troops must be evacuated as soon as possible, this can occur only after the security requirements of Iceland and NATO have been carefully studied. Nevertheless, despite the basic moderation of both the Progressive-Social Democratic and Conservative groups, the heat of the election battle in an intensely nationalist atmosphere may induce all parties to assume categorical positions from which it may be difficult to retreat after 24 June.

While it is unlikely that Iceland will in fact denounce the defense agreement, it is clear that it will insist on a greater share in the operation of the base and a gradual phase-out of American troops.

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Tension Mounts in Panama
As Elections Approach

With the approach of the presidential and National Assembly elections on 13 May, some opposition leaders are calling for revolution and are reported to have approached the Communists for aid. The administration's corruption-ridden political machine, the National Patriotic Coalition Party (PCPN), is threatened with disunity. A serious rift could jeopardize the party's otherwise almost certain victory in the elections, and could lead to disension in Panama's only armed force, the National Guard.

PRESIDENTIAL CANDIDATES

The powerful PCPN, an unstable coalition of political factions, is supporting the wealthy pro-United States businessman Ernesto de la Guardia for president and Demistocles Diaz, an ambitious politician with an unsavory reputation, for first vice president. The only legal opposition party, the National Liberal Party, has nominated a slate of moderate and pro-United States candidates headed by Victor F. Goytia.

REVOLT POSSIBILITIES

Other opposition groups have formed a new self-styled "third position" party, the Popular Resistance Alliance (ARP). Led by the pro-Communist Ramon Jurado, this nationalistic group appeals to politically important student and intellectual groups and includes leftists and anti-US extremists.

ADMINISTRATION WEAKNESSES

Meanwhile, internal disension is threatening the unity of the administration's political machine. Contention is reportedly focused on Diaz, the party's candidate for first vice president, and his chief supporter, "Baby" Jimenez, [redacted]

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An open split in the PCPN not only would jeopardize that party's chance of winning the elections but also might lead to a rift in the National Guard, which, as Panama's only armed force, is a determining factor in the country's stability. Some friction has been reported among the Guard's top leaders, but there is no evidence that it is disloyal to the present government. [redacted]

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PART III

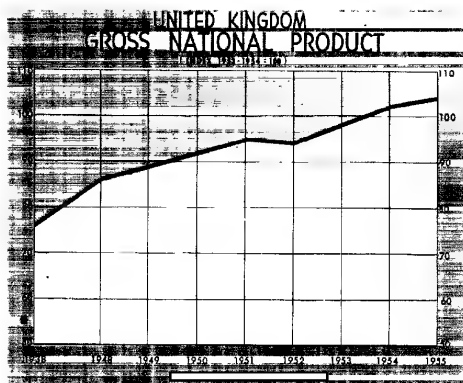
PATTERNS AND PERSPECTIVESBRITAIN'S ECONOMIC SITUATION

The threat posed to Britain's international trading position by steady inflation challenges the Eden government in a politically sensitive area at a time when its prestige is suffering from a series of blows in international affairs. Initial corrective measures have helped to stem the dangerous decline in gold and dollar reserves, but at the cost of a potential rise in unemployment and a curtailed supply of some consumer goods. They also have discouraged some industrial capital expenditures on which Britain's hope for long-term improvement rest. Chancellor of the Exchequer Macmillan's 1956 budget, expected to be presented to parliament on 17 April, will face particularly critical Labor opposition.

1954 Peak

Mid-1954 was in most respects a high-water mark for the United Kingdom's post-war economy. The export trade by which the island lives was two thirds greater in real terms than before the war, while imports had been kept 10 percent below 1938. Gold and dollar reserves were close to a post-war high at three billion dollars, and there was increasing talk of an early return to sterling convertibility with the dollar. The domestic economy was marked by full employment without any sizable inflation, by a continuing satisfactory rise in total production, and by the end of all rationing and most price controls.

A turn for the worse was marked first and most sharply in the key category of foreign trade. Rising imports at higher prices turned a surplus with the dollar area of \$60,000,000, including American aid, into a deficit of \$320,000,000 in the second half of 1954. Gold and dollar reserves declined by nearly a quarter billion dollars in the same six months and have since fallen to a little over two billion.

Decline in 1955

The competitive position of British exports progressively weakened in the booming economy prevailing throughout most of the free world in 1955. Between January and September, for example, exports expanded 5 percent as contrasted with 16 percent for West Germany,

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15 percent for France and an average of 11 percent for the Western European continent as a whole. With sharper competition from Japan and the United States, Britain's share of the world export market for manufactures had by mid-1955 declined from 25 percent in 1950 to only a fractional percentage point above its prewar share of 19 percent.

The domestic economy continued outwardly healthy through the general election of May 1955 but with increasing signs of future trouble. Expanded consumer purchases of such

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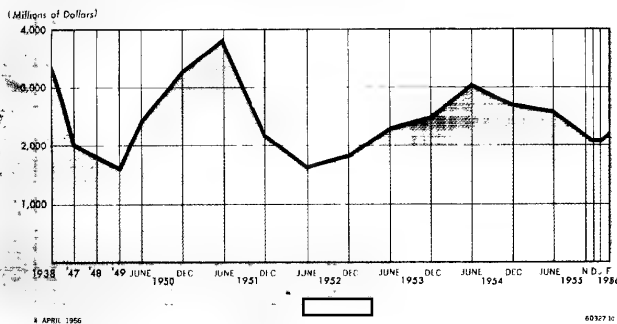
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items as automobiles and household durables helped produce excessive demand on both imports and manpower, and the latter situation enabled labor to obtain wage increases out of proportion to increases in productivity. In 1954 these wage raises had averaged 4.5 percent as compared with increased productivity of 4 percent; in 1955, wages rose 7 percent and productivity only 3 percent.

Increased demand for imports and higher prices for most imported raw materials

been reliance on monetary and fiscal restraint to curb excess domestic demand. This line of attack, accompanied by removal of the direct controls associated with the previous Labor government, had restored confidence in the pound in recovering from the financial crisis of 1951. However, deterioration has persisted in the face of repeated indirect measures to curb demand.

In early January 1956, the government announced the indefinite postponement of further steps toward trade liberalization and the general convertibility of currencies. Since then, there have been growing doubts as to the adequacy of fiscal and monetary measures alone, and the Labor opposition has tried to exploit these doubts by advocating renewal of direct controls.

UNITED KINGDOM
GOLD AND DOLLAR RESERVES

made the situation still more serious. In 1954 it had been possible for industrial production to rise by 6 percent with an increase of only 2 percent in imports. But with the expansion of domestic consumption and a resultant depletion of inventories of imported basic materials and foodstuffs, the rise in industrial production in January-September 1955 was accomplished only at the cost of an 11-percent rise in imports.

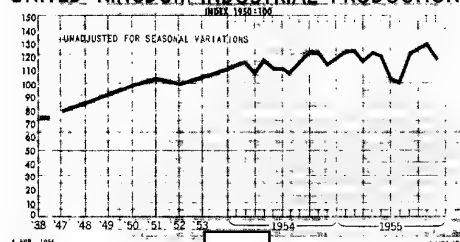
Monetary and Fiscal Restraint

The focal point of the Eden government's concern is this rise in imports in relation to production and exports. The cornerstone of Conservative economic policy has

Measures taken

early in 1955 to moderate internal demand included raising the Bank of England rediscount rate in two steps from 3 to 4.5 percent and the imposition of minimum deposit and maximum time provisions on installment purchases. These proved inadequate and had to be intensified later. In the April budget, anticipating the general elections in May,

UNITED KINGDOM INDUSTRIAL PRODUCTION

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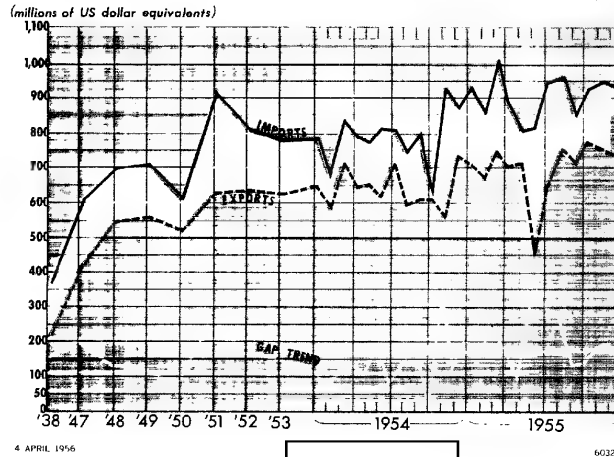
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Chancellor of the Exchequer Butler made political concessions on income taxes and on industrial investment which permitted inflationary pressure to grow.

By July it was apparent that credit was not being adequately restricted. The government therefore announced a reduction in the planned rate of investment by public authorities and the nationalized industries, and asked private firms to slow down or postpone any investment not of greatest national urgency or not likely to increase exports. Curtailment of government expenditures was promised, and the minimum deposit rate for various consumer goods such as automobiles and television sets was more than doubled. These additional measures were slow in taking effect, however, and limited in their results.

Support of Sterling

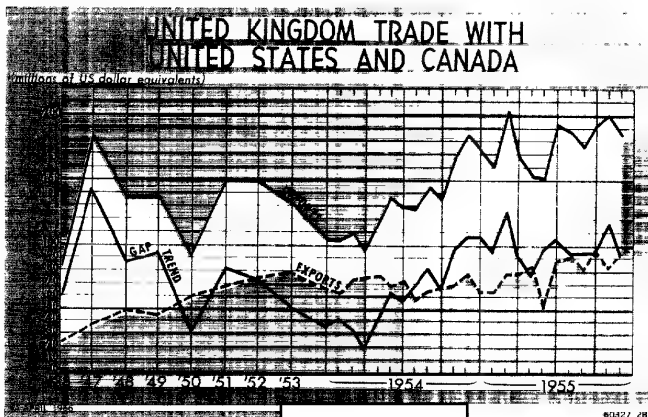
The supplementary budget presented to parliament on 26 October was designed not only to curb consumption and invest-

UNITED KINGDOM FOREIGN TRADE

ment still further but also to assure the future strength of sterling.

During the summer, sterling had weakened appreciably after showing consistent strength with market support from funds of the Exchange Equalization Account authorized in February. Bear speculation on the continent based on rumors of imminent devaluation was mainly responsible for continued weakness into early autumn. The rate definitely firmed only when Butler announced categorically to the September meeting of the directors of the International Monetary Fund at Istanbul that no change in its parity was contemplated.

Sterling remained consistently strong to the end of the year, but a team of experts from the International Monetary Fund, in surveying Britain's economy at that time, found it too early to conclude whether the government's disinflationary measures were sufficient to restore the payments position to surplus.

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Approach Under Macmillan

Harold Macmillan, who replaced Butler as chancellor of the exchequer on 20 December 1955, undertook in February a politically courageous and vigorous attack on Britain's economic problems. He concentrated on eliminating the causes of inflation through containment of wage and price increases.

On 16 and 17 February, Macmillan announced in Parliament a strong new disinflationary program which would reinforce monetary pressure, effect new economy in government expenditures, sharply tighten capital outlays and take a double blow at consumption through stiffer installment purchase terms and cuts in food subsidies.

To carry out the new program, the Bank of England rediscount rate was raised to its highest level in 24 years, to 5.5 percent. Industrial investment was hard hit with the application for the first time of controls on installment buying of plant and machinery and by abolition of allowances of tax freedom. Rules on installment purchases of consumer durables were again tightened to require 50 percent down on cars and electrical appliances and 20 percent on furniture.

Most controversial of the new measures politically was the scheduling of a reduction of the subsidy on bread by 45 percent on 26 February, and that on milk by 54 percent on 1 July. The Labor opposition pointedly asked what effect removal of these subsidies was expected to have on future claims for wage increases.

Effects of Policies

A slight improvement in the trade and labor shortage situation by March does not provide sufficient evidence that the new disinflationary measures are doing the job adequately. The government is engaged in an information campaign to enlist co-operation in fighting inflation and to prepare the atmosphere for whatever additional measures it may find necessary to take in

OEEC EUROPE, VOLUMES OF PRODUCTION AND TRADE
PERCENT INCREASES FROM JAN-SEPT '54 TO JAN-SEPT '55

	Industrial Production	Volume of Imports	Volume of Exports
Austria	14	53	10
Belg.-Lux.	8	6	14
Denmark	2	-1	7
France	14*	11	15
Germany (FR)	16	26	16
Italy	7	5	12
Netherlands	3	14	12*
Norway	4	9	4
Sweden	6	14	7
Total Continental OEEC	12	12	11
United Kingdom	5	11	5
Japan	7	-5	27

* This percentage figure is likely to exaggerate the actual increase in production as the French production index is known to over-represent industries (especially steel production) whose expansion rate was especially large.

* Seven months only.

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the April budget.

There was a change for the better in foreign trade in February as compared with a year earlier. Imports in January and February together were only 2 percent higher, while exports were 4.5 percent higher than in the same months of 1955. The trade deficit was lower and gold and dollar reserves at 2.12 billion dollars were higher than at any time in nine months.

Overtime in the manufacture of durable consumer goods had ceased by the time of the 16 February announcement of new disinflationary measures.

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Automobile and electrical equipment producers have since cut back production and laid off substantial numbers of workers. The effects of these cuts have not yet been felt, however, in steel and other basic industries; and there are no definite signs that the general labor shortage, reflected in less than 2 percent unemployment, had ended.

It is possible that even

the consumer price index one point. Wage increases averaging over 7.8 percent already granted this year are adding to inflationary pressures.

The demand in export markets has declined somewhat in recent weeks, furthermore, with the result that a cut in home demand no longer leads to a corresponding increase in exports. As a result, measures to cut home demand in order to reduce inflationary pressures are more unpopular than before.

Rules that have the effect of cutting back investment and thereby limiting the United Kingdom's capacity or future economic growth can be justified only in terms of an emergency payments

and reserves situation growing out of the inadequacy of previous financial policy. Opposition leader Gaitskell is vigorously attacking the Conservative government's measures discouraging investment.

In recent weeks Macmillan has conferred with labor and business leaders to impress on them the seriousness of the situation and to urge them to moderate wage demands and profit margins. The government White Paper on the implication of full employment published on 22 March was designed to inform the public of the critical situation and to encourage support for the disinflationary policy. In commenting to Parliament on 27 March on the government's economic survey for 1956, the chancellor cautioned that the disinflationary measures will be reinforced if they prove slow in producing results.

Prospects

Macmillan's prospects for laying firm foundations for a

	Change Jan-Sept 1954 (A)	Change Jan-Sept 1955 (B)	(B) minus (A)	End-Sept. 1955	Reserves at End- Sept. 1955 as Per- cent 1954 Imports
United States	228	-10	238	21744	196
Canada	3	-8	-5	1946	43
Dollar Latin America	18	101	223	1820	50
Non-dollar Latin America	52	-71	-19	1621	46
Continental Europe	888	1148	256	11973	51
United Kingdom	599	-369	-968	2094	22
Overseas sterling area	123	-384	-261	4312	57
Rest of World	-34	145	178	2462	43

Macmillan's relatively drastic measures may not prove sufficient to turn the tide and that the final data for March trade will indicate need for further retrenchment. There is no evidence that the rise in wholesale and retail prices during recent months has been arrested; and the government emphasizes that the slight improvement in the trade balance and in gold and dollar reserves in January and February represented only the average seasonal change from 1950 through 1956.

Opposition

The powerful Trades Union Congress in late February submitted to the government a memorandum on budgetary policy that in effect told the chancellor of the exchequer that disinflationary measures which cause rises in prices of necessities, whether through higher taxes or reduced subsidies, will produce new wage demands. The cut in subsidies on bread and milk, for example, will raise

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long-term economic recovery are as good as any Conservative chancellor can hope to have. Though he lacks a Labor chancellor's advantage in appealing to the trade unions to exercise self-restraint on wage demands, the fact that no general election is necessary for another

four years leaves him relatively free from pressure for quick dramatic results in the new budget being presented this month. There are also some indications that international terms of trade are slowly altering to Britain's advantage.

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THE INDONESIAN COMMUNIST PARTY

The Communist Party emerged last year from Indonesia's first national elections with a strong electoral following. The party, therefore, is in a favorable position to support the present international Communist line of peaceful national-front tactics and the use of elections as an "instrument of emancipation."

In the September parliamentary elections, the party polled slightly over 6,000,000 votes, approximately 17 percent of those cast, and it holds 15 percent of the seats in Indonesia's first elected parliament. It polled fourth in a closely fought race in which the three winning parties won 26, 25, and 22 percent of the popular vote.

Although in much of free Asia, Communist parties are outlawed or are hindered by hostile governments, the Indonesian Communist Party moves in a relatively favorable political climate. The Communists' improved position, however, has alarmed significant sectors of

Indonesia's political community to the point where Communist-front representatives were excluded from the new cabinet. Equally significant on the other hand, is the fact that President Sukarno and some leaders of the country's largest party, the National Party, appear impressed, rather than alarmed, by the Communists' strength and are interested in retaining their support.

National Front Strategy

The party's secretary general, D. N. Aidit, attended the Soviet 20th Party Congress and then went to Peiping, where on 29 March he was reported having consultations with Mao Tse-tung, Chou En-lai and other politburo members. Aidit cabled congratulations to the new prime minister, Ali Sastroamidjojo, a leader of the National Party, expressing hope that the progressive program of the cabinet, which was formed shortly after he arrived in the Chinese Communist capital, would be realized and wishing

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Ali success in leading Indonesia toward "full independence, democracy, and peace."

Implementation of the party's strategy probably must await Aidit's return, but in the light of his message from Peiping, it will undoubtedly call for continued national-front tactics.

The national-front tactics which were so vigorously re-emphasized at the 20th Congress would appear to apply particularly to Indonesia. Pravda editor Shepilov, a speaker at the congress, quoted from Marx and Engels that the working class, by successfully capturing parliaments, is capable of turning universal suffrage "from a means of deception, which it was before, into an instrument of emancipation."

He stated that "in the contemporary, new world conditions, it is fully possible that a situation may arise in a number of countries when the working class, led by its Communist vanguard, and having rallied around itself all other working people, ... may in the course of the revolutionary struggle transform the parliament into an organ of genuine democracy"

Application to Indonesia

Aidit, in his last reported major speech on 8 November, listed three main tasks for the party: (1) improvement in ideology; (2) greater understanding of the party's program adopted at its fifth congress in 1954; and (3) expansion of membership, particularly

among the peasants, and greater use of mass organization.

Both the first and second tasks were probably an injunction not to demand more revolutionary and militant tactics than the political situation in Indonesia permits. In this he was in line with the 20th Congress pronouncements in February that "Leninism demands concrete reckoning with concrete situations" and that "only formalists... can assume ... that the transition from one social system to another can be effected after a single pattern."

In Aidit's absence and following Sukarno's acceptance of the cabinet, the party issued a statement to the effect that it disapproved of the cabinet because it included the Masjumi--the only major party in Indonesia which is uncompromisingly anti-Communist--and failed to include either Communist or "national-front" representatives. The party approved the government's "progressive" program but warned that some members of the cabinet are likely to obstruct the program.

The party probably will harass the government in minor ways, principally through brief labor tie-ups and mass demonstrations, and will particularly criticize the policies of Masjumi ministers. It will try to capitalize on any intracabinet rivalries in an effort to realign itself with the National Party, and probably will give selective parliamentary support to the government's program. It may be expected to follow the dual policy of stressing national unity, while at the same time pursuing infiltration tactics.

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External Direction

The type and degree of direction exercised by the Soviet Union and the Chinese Communists over the Indonesian Communist Party are still unknown. It appears, however, that whereas over-all policy and strategy probably originate in Moscow, principal aid to the Indonesian Communists is channeled through the Chinese and some of the more detailed tactics may be worked out with them.

Both the Soviet Union and Communist China have large embassy staffs in Djakarta, and Peiping also has three consulates in the outer islands. Reports recur that a large amount of Indonesian Communist funds comes from the Chinese embassy and the consulates. The party spent freely during the elections even though its own financial resources are believed to be slender. The Chinese consulates also appear to be extremely active in making advice and funds available to Communist-front groups.

Little information is available on Soviet activity in Indonesia. The USSR appears to have confined itself to overt promotion on a small scale of cultural and economic co-operation and to have left covert activity to the Chinese.

Official Relations

Both the Soviet and Chinese governments appear to have been careful not to press friendly relations or the acceptance of aid on the Indonesian government more rapidly than they felt the situation permitted. Apparently they have followed such a policy partly to protect

the Indonesian Communist Party and to preserve the tolerant political climate in which it operates.

With the increased emphasis on Soviet aid to underdeveloped countries, as formulated at the 20th Party Congress, approaches may be expected. The post-election temper of Indonesian politics is such that the government may seriously consider a Soviet offer, particularly with the examples of Indian and Burmese acceptance of aid before it.

Political Climate

The electoral success of the Communist Party in 1955 apparently resulted from (1) the pursuit of national-front tactics since 1952, which permitted it to endorse the highly nationalistic goals of the National Party and President Sukarno; (2) the respectability and freedom of activity which derived from the dependence of a Nationalist-led cabinet on Communist parliamentary support during two years preceding the elections; and (3) hard work coupled with apparently ample funds.

The good showing of the Communists in the elections appears to have alerted significant sectors of Indonesia's political community to the danger of Communist strength. These elements aligned themselves with the Masjumi in rejecting efforts by the National Party's left wing and President Sukarno to place a Communist sympathizer in the cabinet.

Although the cabinet is relatively moderate, political conditions in Indonesia remain susceptible to national-front tactics, particularly since all

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problems are tied to nationalism and anticolonialism, an approach which was given impetus by the plurality of the nationalistic National Party in the 1955 elections. The cabinet includes three major parties, and in time will probably be seriously beset by their rivalries and disagreements. There is a strong possibility that the National Party, which is controlled by its left wing, will be prompted to look again to the Communists for support.

There is a readiness, especially among the extreme nationalist elements, to accept Communists at their word. The party will reap new respectability from the peaceful pronouncements and the themes of unity and anticolonialism expressed at the Soviet 20th Party Congress. Indonesia's prime minister, Ali Sastroamidjojo, who is associated with the left wing of the National Party, told an American official recently, "In Asia we are trying to free ourselves from colonialism, and the national-

ists and the Communists have worked hand in hand, side by side, and shoulder to shoulder against colonialism."

President Sukarno, the most popular leader in Indonesia, appears eager to retain Communist support and apparently is convinced he can use the Communists and discard them or jail them when and if this should become necessary. Sukarno maintains that "national unity" must be preserved--an approach which the Communists have been quick to exploit. He has stated that as long as the Communists work for "completion of the national revolution," they are "acceptable."

Moreover, no Indonesian party, including the Masjumi, favors strong action against the Communists until--and unless--they go "too far." Tolerance of Communist activity and the resultant growth of Communist organizations and influence may, therefore, be expected to continue. 25X1

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ENERGY PRODUCTION IN THE USSR

The present rapid growth of energy production in the USSR from all sources is to increase still further under the Sixth Five-Year Plan (1956-1960), and output will probably reach 50 percent of the American level by 1960. Two thirds of the total Soviet energy output is now derived from coal, but petroleum is to contribute a rapidly increasing share in the next

five years. Only very minor contributions are planned from hydropower and nuclear sources.

Growth of the Energy Supply

The Sixth Five-Year Plan calls for an unprecedented expansion in the production of energy. The increase scheduled between 1956 and 1960 is

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larger than total Soviet energy production in 1940.

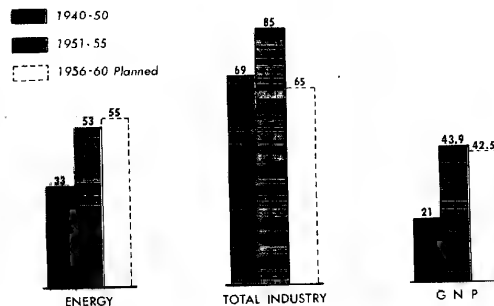
By 1960, the USSR will have made significant percentage gains on the United States in energy production, although the total scheduled Soviet increase is only slightly greater than that predicted for the United States in absolute terms. If the 1956-1960 rates of growth for both countries should continue into the future--which would be difficult for both countries--Soviet energy output would exceed that of the United States some time between 1970 and 1975.

The Soviet Union is actually gaining less rapidly on the United States in power production than this chart indicates, because American industry uses fuel more efficiently.

Maintenance of the scheduled growth rate for energy output in the USSR will easily

SOVIET GROWTH RATES

Percentage increase of the last year over the first year of each period



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support the level of industrial production planned for 1960; this level actually will require lower rates of increase of energy output than those achieved in previous years.

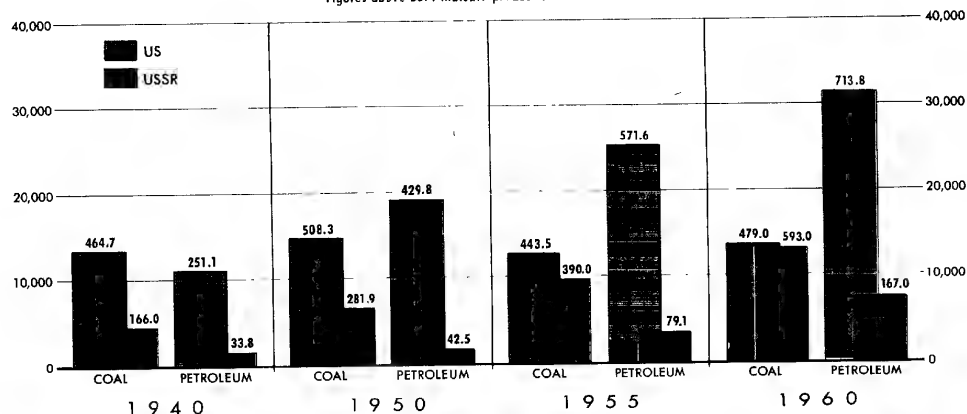
Thus, planned 1960 energy production will outstrip industry's needs and give the economy a "cushion" of fuel reserves.

In 1954, solid fuels--primarily coal--reached the peak of their importance in total Soviet fuel supplies. During the Sixth Five-Year Plan, petroleum

**US - USSR
ENERGY GROWTH COMPARISONS, 1940-1960**

IN TRILLION BTU'S (BRITISH THERMAL UNITS)

Figures above bars indicate production in million tons



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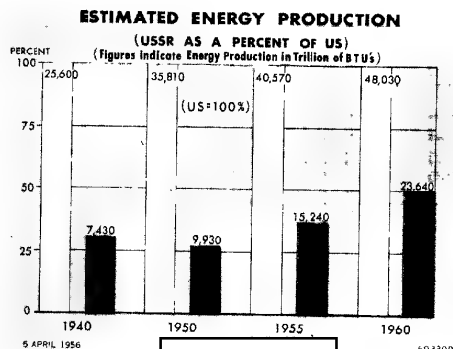
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output, including natural gas, will become progressively more important. Petroleum became the major source of energy in the United States in the early postwar years, and will probably provide 70 percent of US energy by 1960.

In 1955, "other" sources of energy in the USSR included fuel wood (6.2 percent), peat (3.8 percent), hydropower (2.5 percent), and shale (.66 percent). By 1960, hydropower will increase to about 4.1 percent of the planned total, while the role played by the other less important fuels will decline. Nuclear energy will play a very minor role.

Regional Production Changes

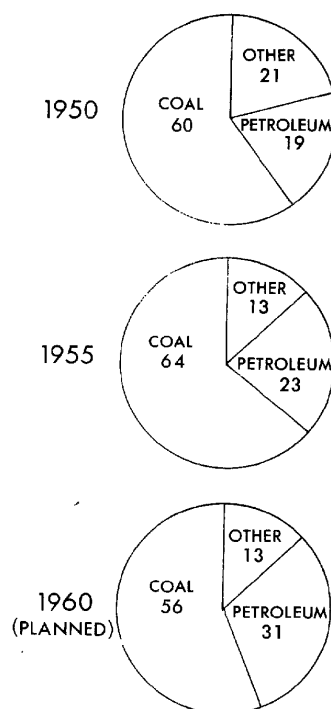
By 1960, the center of Soviet fuel production will have shifted eastward, toward the location of major resources. (Some 90 percent of known Soviet coal reserves are located east of the Urals.) The move will result in major economies, provide an energy base for accelerated economic growth of the eastern regions, and decrease the vulnerability of the Soviet energy supply.

The slow eastward movement of Soviet coal mining will take advantage of the lower production costs of strip mining, reduce the load on the east-west railroads and provide fuel for

the thermal electric stations to be erected in these areas. Nevertheless in 1960, two areas --the Don Basin in the west and the Kuznetsk Basin in the east--will still be supplying about half of the total coal supply. Increased production in the Don Basin, the most important source of Soviet coke, is the largest expansion in coal output planned for the Western areas.

In 1940, about three fourths of Soviet crude oil came from the Baku area; by 1960 as much as three fourths may be produced in the Volga and Urals regions with obvious advantages, both military and economic. These areas are short of coal, although they contain five out of the ten largest industrial centers in the USSR and produced about 25 percent of total

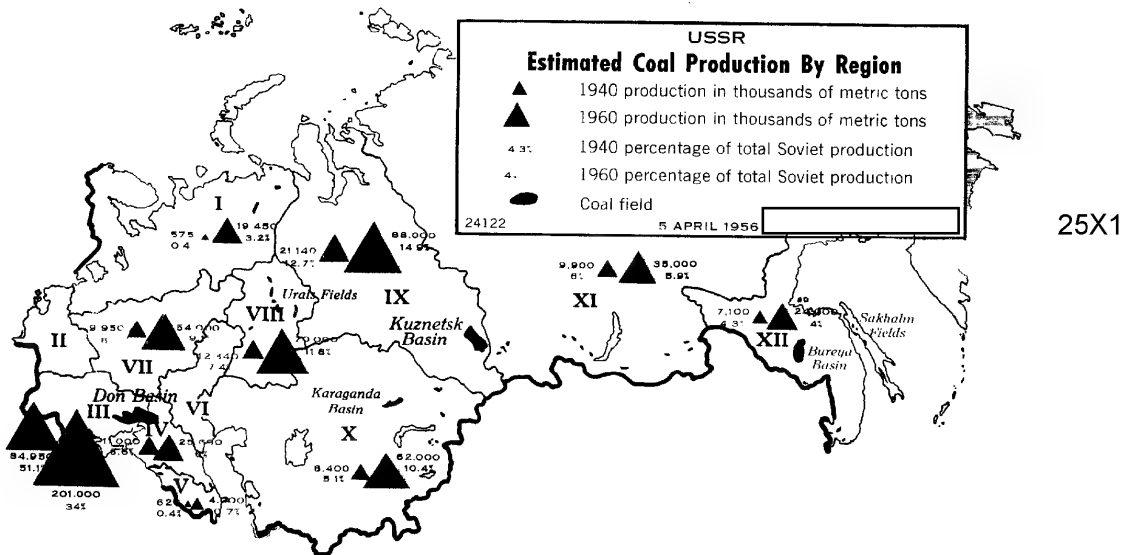
USSR ENERGY SOURCES
(ESTIMATED PERCENT OF TOTAL BTU'S)

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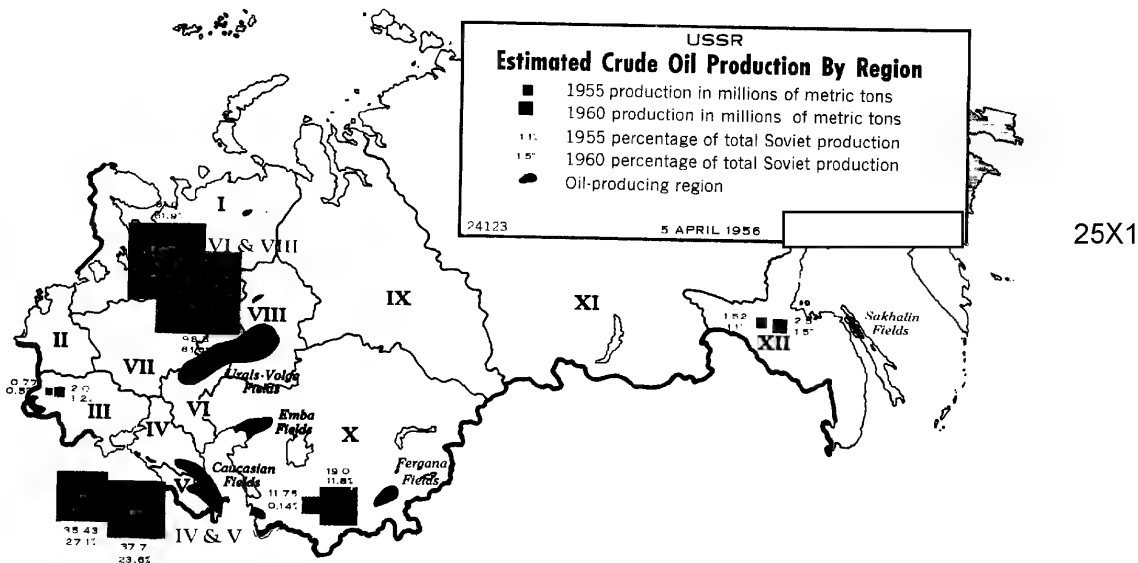
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Soviet manufactures in 1954. Thus fuel supplies throughout the Ural-Volga region will become better and considerably cheaper as locally produced oil replaces long-haul coal.

The cost of fuel to the USSR as a whole is also expected to be considerably reduced by this move. In 1954, crude oil was reportedly produced in the Urals-Volga area

at one fourth the average cost of oil from the western regions' fields.

Production of natural gas in the western USSR will be expanded under the Sixth Five-Year Plan. It will apparently be used primarily in the major cities of the European USSR, and the consumer may receive most of his small share of increasing energy output in this form.



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Fulfillment Possibilities

The major limitations on the growth of the production of energy in the USSR have been a low level of technical skill, a lack of equipment, and very slow rates of construction of new facilities.

Coal: In the coal industry, the equipment problem seems in hand although there are some shortages in production of such equipment as conveyors. Specialized machines have been designed and produced for mining very thick coal seams, for large-scale strip mining and for underground hydraulic coal mining--a method used only in the Soviet bloc. The new plan calls for increased output and improved utilization of such equipment and for the design and production of more complex types. The administrative changes in the coal industry made in 1954 and 1955 suggest major efforts to ensure the proper use of this equipment by mine managers.

New mine construction, however, is still a serious problem; time of construction presently averages from five to eight years per mine. If new mines are to produce about 20 percent of the 1960 total output as scheduled, the construction time must be sharply reduced, especially in the all-important Don Basin, which is scheduled to increase production by 57 percent by 1960. If this problem can be overcome, the Soviet coal industry may overfulfill its 1960 goal. The original Fifth Five-Year Plan goal was overfulfilled despite failure to meet construction plans by producing more coal than planned in the existing mines.

Petroleum: In petroleum technology and equipment, the

USSR has already reduced the American lead considerably. The improvement of Soviet extractive equipment is demonstrated by the development of a high-speed turbine drill particularly suited to the geological formations of the Ural-Volga regions. In refining, the technical level of the Soviet industry is illustrated by a sharp rise in the proportions of light and intermediate distillates obtained from a given amount of crude oil.

By 1955, the light plus intermediate yield--which includes both high octane aviation gasoline and jet kerosene--almost equaled US yield in percentage terms. This yield was obtained by the USSR in spite of a wide use of high sulphur Urals-Volga crude oil which requires more processing equipment than Baku crude.

The 1960 plan calls for the construction of an additional 45,000,000 tons of crude distillation capacity and 25,000,000 tons of cracking capacity. The increase of crude distillation facilities planned for 1956 to 1960 is about equal to the capacity added during the last Five-Year Plan and should be easily achieved. The planned addition to cracking capacity, however, equals the total estimated 1955 capacity. Refinery construction, like mine construction, has lagged behind schedule. Meeting the 1960 goal may, therefore, be very difficult.

Soviet production of energy will meet the over-all 1960 goals, if the time required for construction of new facilities for mining coal and processing petroleum can be reduced, and the efficiency of coal mines, especially in the Don Basin, increased as scheduled.
(Prepared by ORR)

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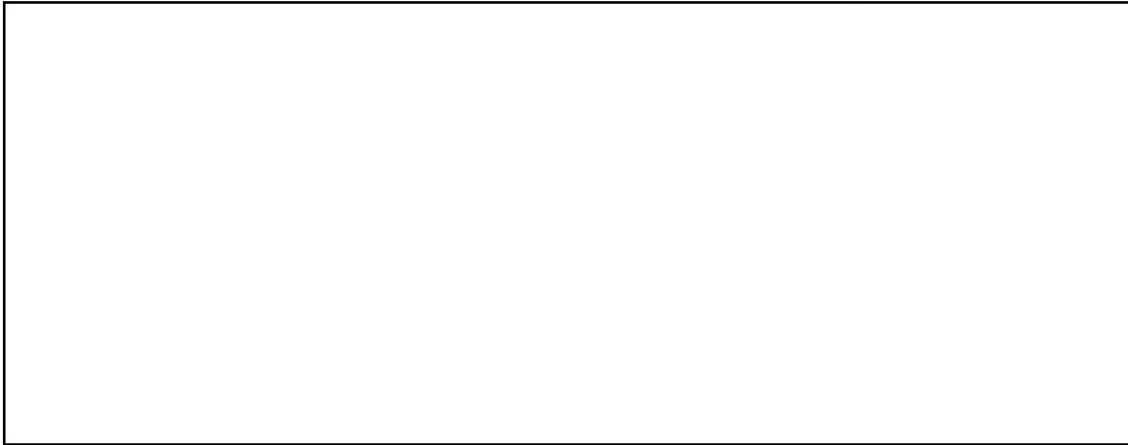
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